IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | **DIVISION OF FINANCIAL MANAGEMENT** | **MAY 2003 VOLUME XXIV NO. 11**

In this *Outlook* we review Global Insight's long-run forecast for the Idaho economy. Legend has it that when John Maynard Keynes was asked about what would happen in the long run, he replied, "In the long run we are all dead." The legendary economist was simply emphasizing his focus on short-term economic policy versus the longer term using his British dry wit. Of course, other interpretations are also possible. Some economic forecasters may find this quote liberating because it means they will not be around to see whether their long-term projections come true.

Before looking at projections, we should look at history. This will provide a useful benchmark for comparing Idaho's future economic performance. The specific period we will look at is the state's unprecedented 14-year expansion from 1987 through 2001. Idaho nonfarm employment grew 4.1% annually over this period. This pace made Idaho one of the fastest growing states in the nation. Another satisfying aspect of this growth was it was balanced between the goods-producing and nongoods-producing sectors. Specifically, employment in the state's huge nongoods-producing sector increased an average of 4.1% per year, while the number of goods-producing jobs grew 3.9% annually. But these are just two measures of the state's strong performance; there are others. For example, Idaho's population increased an average of 2.1% from 1987 through 2001—nearly twice as fast as the nation. The Gem State's real personal income also grew faster than its national counterpart. It averaged 4.3% growth compared to the nation's 3.0% annual pace. Idaho housing starts rose from 3,409 units in 1987 to a peak of 12,766 units in 1994, and have hovered near 10,000 units since then.

Now we return to the future. The following forecast was made by the Global Insight staff and is published in its *Regional Forecast State Long-Term Tables*, *Spring 2003*. The forecast covers the quarter century from 2002-2025. According to Global Insight, after averaging 1.6% growth from 2002 to 2007, Idaho nonfarm employment should average just over 1.8% growth over the last two decades of the forecast horizon. This pace is less than half that experienced during the state's recent expansion. Interestingly, most of the employment growth will be in the nongoods-producing sector. For example, services employment is slated to increase about 3.0% annually and trade employment is anticipated to rise about 1.3%. Idaho manufacturing employment is projected to be flat through 2007, and then advance less than one-half percent per year thereafter. Idaho's mining sector is expected to shrink over the forecast period. Construction is projected to be the strongest goods-producing industry; it is forecast to expand at least one percent per year.

Other measures will also find it difficult to clear the admittedly high bar set during the last expansion. Idaho's population is projected to advance about 1.1% per year. Idaho housing starts should grow marginally faster than population over the forecast period (1.3% versus 1.1%). Interestingly, single-unit starts are expected to grow just slightly faster (1.3%) than multi-unit starts (1.2%). Idaho real personal income should grow 2.6% per year.

Clearly, these measures will not match the stellar growth of the recent expansion. However, it is interesting to see how well it will perform compared to the nation and other states. A characteristic of the expansion is Idaho outperformed the nation. It is anticipated this will continue. National nonfarm employment is expected to advance 1.1% from 2002 to 2027. Idaho's population also expands faster than the nation's. Interestingly, U.S. real personal income growth will virtually match Idaho income growth. Specifically, at the national level real personal income should rise 2.7% annually (compared to 2.6% in Idaho). As a result of its stronger population growth and slightly weaker real income growth, Idaho real per capita growth (1.4%) trails national per capita growth (1.8%) over the forecast period.

During most of the expansion Idaho's strong performance landed the state in the top ten of many lists measuring economic performance. Idaho employment growth is rated fourth over the next quarter century. The only state expected to produce jobs faster are Nevada, Florida, and Arizona. The Gem State slips into the list of top ten states with the fastest growing populations; Idaho is ranked ninth. Nevada retains its title as the state with the nation's fastest growing population. North Dakota is in last place because of projected declines over the forecast period. Idaho real personal income growth is ranked 23rd, just above the nation's median. However, the ranking for the level of Idaho real personal income should improve from 42nd to 41st over the forecast period.

In summary, Idaho is not expected to repeat its record-breaking economic expansion performance over the next 25 years. However, in terms of jobs and population, it should still be one of the fastest growing states in the nation. We hope we have the chance to see whether this projection comes true before Professor Keynes' prediction does.

DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W. Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Darrell V. Manning, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

General Fund Update

As of April 30, 2003

Revenue Source	$ Millions		
	FY03 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	886.5	802.1	745.1
Corporate Income tax	86.0	71.0	70.8
Sales Tax	691.9	567.2	573.4
Product Taxes[1]	22.1	18.3	17.9
Miscellaneous	99.8	50.7	56.6
TOTAL GENERAL FUND[2]	**1,786.4**	**1,509.3**	**1,463.8**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2003, adjusted for 2003 legislative actions

General Fund revenue was $29.0 million lower than expected in April. This brings the fiscal year-to-date revenue gap to $45.5 million below the target. The bulk of the shortfall in April was due to weak individual income tax filing payments. April's disappointing results probably overstate the magnitude of the revenue problem the General Fund will face at fiscal year-end. However, it is virtually certain the year will end with revenue substantially below the current official forecast.

Individual income tax revenue was $35.3 million lower than expected in April. Filing payments were $26.5 million lower than expected for the month and now stand $20.3 million below the year-to-date target. Withholding payments were $2.2 million lower than expected, and the year-to-date shortage is now $6.5 million. Refunds were $7.1 million higher than expected in April, and are now $30.4 million higher than expected for the fiscal year to date. Overall, the Individual Income Tax is $57.0 million below the year-to-date target.

Corporate income tax revenue was $8.7 million higher than expected in April, and is now just $0.2 million lower than the year-to-date target. Filing payments were $6.2 million above target, and are now $6.6 million higher than expected on a year-to-date basis. Estimated payments were $2.6 million higher than expected for the month, and are now just $0.8 million below the target for the year-to-date. Refunds were $0.3 million higher than expected in March, and are $6.5 million higher than expected for the year-to-date.

Sales tax revenue was strong again in April, coming in $0.5 million higher than expected for the month, and now stands $6.2 million ahead of the year-to-date target. With the 6% sales tax taking effect on May 1, it is likely that May collections will also be strong, due to accelerated purchasing of big-ticket items in April before the rate increase takes effect.

Product tax revenue was $0.3 million below target in March due to weak cigarette tax collections, and is $0.4 million low for the fiscal year-to-date. April miscellaneous revenue collections were $2.7 million lower than expected. This reflects interest earnings that were $8.4 million below projections. The main reason for the disappointing showing was earnings on the Tax Anticipation Note have been much lower than had been projected. Fortunately, part of this shortfall was offset by better-than-expected results in other miscellaneous revenue categories. Unclaimed property collections were $1.5 million higher than projected and the estate tax exceeded expectations by $3.8 million. On a year-to-date basis, miscellaneous revenue is $5.9 million above expectations
.